



**Calhoun: The NPS Institutional Archive**  
**DSpace Repository**

---

Theses and Dissertations

1. Thesis and Dissertation Collection, all items

---

1990-06

# Personnel and payroll management: a guide for the comptroller

Lofink, Raymond K.

Monterey, California. Naval Postgraduate School

---

<http://hdl.handle.net/10945/30653>

---

This publication is a work of the U.S. Government as defined in Title 17, United States Code, Section 101. Copyright protection is not available for this work in the United States.

*Downloaded from NPS Archive: Calhoun*



<http://www.nps.edu/library>

Calhoun is the Naval Postgraduate School's public access digital repository for research materials and institutional publications created by the NPS community. Calhoun is named for Professor of Mathematics Guy K. Calhoun, NPS's first appointed -- and published -- scholarly author.

**Dudley Knox Library / Naval Postgraduate School**  
**411 Dyer Road / 1 University Circle**  
**Monterey, California USA 93943**

AD-A237 341



# NAVAL POSTGRADUATE SCHOOL Monterey, California



## THESIS

DTIC  
ELECTE  
JUN 20 1991  
S B D

PERSONNEL AND PAYROLL MANAGEMENT;  
A GUIDE FOR THE COMPTROLLER

by

Raymond K. Lofink

Thesis Advisor:  
Second Reader:

Glenn Eberling  
Jerry L. McCaffery

Approved for public release: Distribution is unlimited

91-02435



91 1 0

UNCLASS

SECURITY CLASSIFICATION OF THIS PAGE

## REPORT DOCUMENTATION PAGE

1a REPORT SECURITY CLASSIFICATION UNCLASS			1b RESTRICTIVE MARKINGS		
2a SECURITY CLASSIFICATION AUTHORITY N/A			3 DISTRIBUTION/AVAILABILITY OF REPORT APPROVED FOR PUBLIC RELEASE DISTRIBUTION IS UNLIMITED		
2b DECLASSIFICATION/DOWNGRADING SCHEDULE			5 MONITORING ORGANIZATION REPORT NUMBER(S)		
4 PERFORMING ORGANIZATION REPORT NUMBER(S)					
6a NAME OF PERFORMING ORGANIZATION Naval Postgraduate School		6b OFFICE SYMBOL (if applicable) CODE AS		7a NAME OF MONITORING ORGANIZATION Naval Postgraduate School	
6c ADDRESS (City, State, and ZIP Code) Monterey, CA 93943-5000		7b ADDRESS (City, State, and ZIP Code) Monterey, CA 93943-5000			
8a NAME OF FUNDING/SPONSORING ORGANIZATION		8b OFFICE SYMBOL (if applicable)		9 PROCUREMENT INSTRUMENT IDENTIFICATION NUMBER	
8c ADDRESS (City, State, and ZIP Code)		10 SOURCE OF FUNDING NUMBERS			
		PROGRAM ELEMENT NO		PROJECT NO	TASK NO
				WORK UNIT ACCESSION NO	
11 TITLE (include Security Classification) PERSONNEL AND PAYROLL MANAGEMENT; A GUIDE FOR THE COMPTROLLER					
12 PERSONAL AUTHOR(S) LOFINK, RAYMOND K.					
13a TYPE OF REPORT Master's Thesis		13b TIME COVERED FROM TO		14 DATE OF REPORT (Year Month Day) 90JUN19	
				15 PAGE COUNT 74	
16 SUPPLEMENTARY NOTATION The views expressed in this thesis are those of the author and do not reflect the official policy or position of the Department of Defense or the U.S. Government.					
17 COSATI CODES			18 SUBJECT TERMS (Continue on reverse if necessary and identify by block number)		
FIELD	GROUP	SUB-GROUP	COMPTROLLER CIVILIAN PAY PAYROLL MANAGEMENT		
19 ABSTRACT (Continue on reverse if necessary and identify by block number.)					
<p>The focus of this thesis is to identify the prerequisite knowledge required by the Navy financial manager in the budget formulation and execution process for civilian personnel and payroll management. Research at the field activity level has provided practical policies and procedures that have been combined with existing financial management directives, manuals, and instructions to produce a management guide for incorporation in the Practical Comptrollership Course (PCC) offered by the Naval Post Graduate School in Monterey, California. It is primarily intended for use by the PCC students as a management tool for relieving, reference, and training.</p>					
20 DISTRIBUTION/AVAILABILITY OF ABSTRACT <input checked="" type="checkbox"/> UNCLASSIFIED/UNLIMITED <input type="checkbox"/> SAME AS RPT <input type="checkbox"/> OTIC USERS			21 ABSTRACT SECURITY CLASSIFICATION UNCLASS		
22a NAME OF RESPONSIBLE INDIVIDUAL Glenn Eberling			22b TELEPHONE (include Area Code) (408) 646 2607		22c OFFICE SYMBOL 54/Er

Approved for public release; distribution is unlimited.

Personnel and Payroll Management;

A Guide For The Comptroller

by

Raymond K. Lofink

Lieutenant Commander, Supply Corps, United States Navy

B.A., Washington State University, 1976

Submitted in partial fulfillment

of the requirements for the degree of

MASTER OF SCIENCE IN FINANCIAL MANAGEMENT

from the

NAVAL POSTGRADUATE SCHOOL

June 1990

Author:

Raymond K. Lofink

Approved by:

Glenn Eberling

Jerry L. McCaffery

David R. Whipple,  
Department of Administrative Sciences

## ABSTRACT

The focus of this thesis is to identify the prerequisite knowledge required by the Navy financial manager in the budget formulation and execution process for civilian personnel and payroll management. Research at the field activity level has provided practical policies and procedures that have been combined with existing financial management directives, manuals, and instructions to produce a management guide for incorporation in the Practical Comptrollership Course (PCC) offered by the Naval Post Graduate School in Monterey, California. It is primarily intended for use by the PCC students as a management tool for relieving, reference, and training.

5  
INSECTED  
COPIES  
DTIC

Accession For	
NTIS GRA&I	<input checked="checked" type="checkbox"/>
DTIC TAB	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification	
By	
Distribution/	
Availability Codes	
Dist	Avail and/or Special
A-1	

## TABLE OF CONTENTS

I.	INTRODUCTION . . . . .	1
A.	BACKGROUND . . . . .	1
B.	OBJECTIVE . . . . .	2
C.	RESEARCH QUESTIONS . . . . .	2
D.	DISCUSSION . . . . .	4
E.	SCOPE AND LIMITATIONS OF STUDY . . . . .	5
F.	METHODOLOGY . . . . .	6
G.	ORGANIZATION OF THE STUDY . . . . .	7
II.	OVERVIEW . . . . .	9
A.	DISCUSSION . . . . .	9
B.	FEDERAL PAYROLL STRUCTURE . . . . .	9
	1. General Schedule (GS) . . . . .	10
	2. Federal Wage System . . . . .	12
	3. Excepted Service . . . . .	14
C.	DIVERSITY OF PAYROLL SYSTEMS . . . . .	14
	1. Current Systems . . . . .	14
	2. NAVSCIPS . . . . .	15
D.	COMPONENTS OF AN EMPLOYEES PAY . . . . .	16
	1. Base pay - Direct . . . . .	16
	2. Benefits -Fringe . . . . .	16
	a. Retirement Plans . . . . .	17
	1. CSRS . . . . .	17

2.	Federal Employees Retirement System (FERS)	17
b.	Health Insurance	18
c.	Life Insurance	18
E.	COMPTROLLER ORGANIZATION	19
1.	Budget Division	19
2.	Accounting Division	20
F.	MANAGING TO PAYROLL (MTP)	20
III.	BUDGET FORMULATION	25
A.	DISCUSSION (CPF 12510.2)	25
1.	Basic Compensation	25
2.	Other Basic Compensation	25
3.	Other Compensation	26
4.	Overtime	26
5.	Holiday Premium	26
6.	Other	26
7.	Special Personal Service Payments	27
8.	Awards and Beneficial Suggestions	27
B.	LINE MANAGER PARTICIPATION	29
C.	MANAGING TO PAYROLL	31
1.	Contractor Support (A-76)	34
2.	Disadvantaged Employment Programs	35
3.	SES-Supergrades	35
4.	Non-Appropriated Fund	35
D.	PAYROLL COSTS AND BUDGET IMPACT	35
1.	Accelerator	36

2.	Reductions-In-Force (RIF)	39
3.	Lump-sum Leave Payments	40
4.	Leave Without Pay	40
5.	Moving	40
6.	Furloughs	41
IV.	BUDGET EXECUTION	42
A.	DISCUSSION (CPF 12510.2)	42
B.	MONITORING PAYROLL COSTS	43
1.	Internal and External Reporting Requirements	43
2.	Tracking Civilian Labor Costs	46
C.	CONTROLLING PAYROLL COSTS	51
V.	FUTURE CHANGES	55
VI.	CONCLUSIONS	61
	APPENDIX	63
	LIST OF REFERENCES	66
	INITIAL DISTRIBUTION LIST	67



## I. INTRODUCTION

### A. BACKGROUND

In today's financially constrained environment it is critical that the fiscal manager control cost as effectively as possible. Labor costs most often account for the greatest amount of O&MN expenditure at an activity.

Training for financial personnel with regard to personnel and payroll management is available at the Naval Postgraduate School through the Practical Comptroller Course and in MN 4154. However, the reference materials for the courses are in need of revision. Significant changes such as Managing to Payroll have been implemented yet are only briefly mentioned.

It is apparent that the near future will be punctuated with increasing pressure to reduce expenditures. The impact on an organization's ability to perform operationally is contingent on its ability to manage and control costs. Increased emphasis must be placed on the critical role that civilian labor costs play in the budget cycle.

It is my intent to merge personnel and payroll theory, official requirements (as delineated by regulation and instruction), and field level experience into a practical guide for the financial manager.

## **B. OBJECTIVE**

The objective of this thesis is to develop a comprehensive budget formulation and execution guide for use in civilian personnel and payroll management by the field activity comptroller department. This management guide will be incorporated as a training module in the Practical Comptrollership Course (PCC) offered by the Naval Post Graduate School in Monterey, California. It is primarily intended for use by the PCC students as a management tool in the relieving process, initial reference when questions arise on the job, and for command training.

## **C. RESEARCH QUESTIONS**

The primary research question is:

1. What is the prerequisite knowledge required by a financial manager to perform effectively in the area of personnel and payroll functions? Emphasis will be on the activity comptroller and members of the comptroller department.

Subsidiary research questions include:

1. How is a budget for civilian personnel formulated?
2. How is a budget for civilian personnel executed?
3. How is a budget for civilian personnel monitored?

Within the above framework, the following questions will be addressed:

1. What is the significance of labor costs to an organization?

2. What is Managing to Payroll (MTP) and how does it affect the budget process?

a. How is MTP designed to work and how is it working in reality?

b. An important component of Managing to Payroll involves designing an organizational structure that most effectively and efficiently accomplishes the stated mission. How does this Organizational design process affect the financial manager throughout the budget process? What is the role of the financial manager in organizational design?

3. What are civilian personnel classifications and how do these classifications affect the budget?

4. How do the following items impact the budget process?

a. Straight and differential pay

b. Benefits: retirement, sick leave, health insurance

c. Acceleration

d. Reductions-in-force (RIF)

e. Lump sum leave payments

f. Personnel awards

g. Leave without pay

h. Foreign/Overseas pay: Cola, etc.

i. Moving a civilian employee

j. Base operating support agreements (BOS)

5. What are some effective methods of controlling labor costs?

6. How are labor costs reported and tracked both externally and internally? Are there differences in reporting and tracking of civilian labor cost between the echelons of command in the Navy, i.e., echelon 2, major claimants, and echelon 3, subclaimants? What performance indicators are used by various commands?

7. How does accounting differ between types of organizations, i.e., NIF activities and Non-NIF activities?

8. What sources of training are available for the financial manager?

9. To what status of NAVSCIPS and what is the future outlook?

#### **D. DISCUSSION**

In today's financially constrained environment it is critical that the fiscal manager control cost as effectively as possible. Labor costs most often account for the greatest amount of O&MN expenditure at an activity.

Training for financial personnel with regard to personnel and payroll management is available at the Naval Postgraduate School through the Practical Comptroller Course and in MN 4154. However, the reference materials for the courses are in need of revision. Significant changes such as Managing to Payroll have been implemented yet are only briefly mentioned.

It is apparent that the near future will be punctuated with increasing pressure to reduce expenditures. The impact on an organization's ability to perform operationally is contingent on its ability to manage and control costs. Increased emphasis must be placed on the critical role that civilian labor costs play in the budget cycle.

It is my intent to merge personnel and payroll theory, official requirements (as delineated by regulation and instruction), and field level experience into a practical guide for the financial manager.

The Practical Comptrollership Course, Personnel and Payroll module will be provided as an appendix to the thesis. It is intended to replace the current personnel and payroll module and augment the MN 4154 course.

#### **E. SCOPE AND LIMITATIONS OF STUDY**

This thesis examines the general field of civilian personnel policy and payroll management within the Department of the Navy. Because of the relatively recent implementation of Managing to Payroll, a significant amount of discussion will be devoted to this area.

It is not the intent of this thesis to reiterate existing instructions, as most professionals will read these for themselves. However, instructions play an important role in the development of this user guide. The references to these

instructions will assist the users of this manual in locating sources for additional research and for updating their guide.

Instructions aside, a great amount of emphasis is placed on the current practices of the field activity comptroller and their organizations. The intent of this guide is to provide the financial manager with a *practical* guide to civilian personnel. At times this entails detailing what instructions say and contrasting the instructions with real world practices.

The questions posed in section C above are the foundation for investigative research. While all the questions will be explored, greater detail will be provided for those topics that apply to the majority of persons using the guide. As an example, the discussion of straight, fringe, and differential pay will be presented in greater detail than foreign colas.

Excluded from the thesis is military personnel policy and payroll.

#### **F. METHODOLOGY**

The training module was developed by first conducting a review of financial management directives, manuals, and instructions to identify the functions and responsibilities of the field activity comptrollers and line managers in the civilian personnel and payroll budgeting process. These functions and responsibilities have been integrated with practical policies and procedures performed at field

activities to produce a practical guide to the budget process. The field research was conducted through on-site and telephone interviews with people representing different echelons of command and different functions in the personnel and payroll process in the Navy.

#### **G. ORGANIZATION OF THE STUDY**

A common thread links the chapters; specifically each chapter addresses the payroll cost and budget impact, reporting requirements, and managing to payroll, as well as category unique material.

*I. OVERVIEW.* This chapter presents background information for the financial manager. There is a discussion of the federal payroll structure, the typical comptroller organization, components of an employee's pay (base pay, shift differentials, benefits, etc.), and the common thread components (how costs impact the organization, the importance and use of reports, and a description of managing to payroll.)

*II. BUDGET FORMULATION.* This chapter emphasizes the elements of budget formulation. Representative budget exhibits from different echelons of command will be utilized.

*III. BUDGET EXECUTION.* Budget execution focuses on two processes:

- (1) the monitoring of payroll costs
- (2) the controlling of payroll costs

An explanation of time keeping systems, job control numbers, and a sample of reports, both internal and external, is included in the monitoring phase.

The controlling phase emphasizes practical approaches to controlling labor costs (i.e. "how-to tips.") gleaned from the research conducted at the numerous field activities and include a discussion of the tools for controlling labor costs.

#### *IV. FUTURE CHANGES*

#### *V. CONCLUSION*



## **II. OVERVIEW**

### **A. DISCUSSION**

Civilian payroll costs are a significant part of an activity's annual budget. Unlike military manpower costs, which are for all practical purposes transparent to most organizations, civilian payroll costs are budgeted for and controlled by the activity. With civilian personnel costs representing as much as 60% or more of an activities annual budget they become an increasingly attractive target for budget cuts. The financial manager must understand the impact civilian payroll has on the organization. To do this requires an overall knowledge of the payroll process, both internal and external to your organization. For this reason we will look at the functions and responsibilities of the civilian personnel offices, as well as the financial organizations.

### **B. FEDERAL PAYROLL STRUCTURE**

Civil Service is the term commonly used to describe service performed for the Federal Government by employed civilians who have competitively attained their position and who may gain tenure by continuing satisfactory performance. The Office of Personnel Management, headed by a Director appointed by the President of the United States, administers the U.S. Civil

Service laws and regulations for the Executive Branch of the Government. The Office of Personnel Management was created by the Civil Service Reform Act of 1978, replacing the Civil Service Commission which was created by an act of Congress in 1883.

Federal civil service employees are divided into several groups, the most common of which are:

**1. General Schedule (GS)**

The pay plan applicable to positions of which require knowledge and experience of an administrative, clerical, scientific, artistic, or technical nature not connected with trades and crafts. GS positions are subject to Chapter 51, Title 5 of the U.S. Code. Also applies to the positions covered by the Performance Management and Recognition System (PMRS), formerly Merit Pay System, and identified with the prefix "GM."

There are 15 levels of GS ratings with ten steps in each level. Since the Civil Service Reform Act in 1979, non-career executives are now members of the Senior Executive Service (SES).

General schedule employees receive increases in pay through a process called step increases. Within each grade step increases are obtained based on longevity and satisfactory performance as follows:

---

<i>Steps</i>	<i>Requirement</i>
1-4	One year satisfactory performance for each step
5-7	Two years satisfactory performance for each step
8-10	Three years satisfactory performance for each step

---

Any person promoted to a higher grade (GS position) is guaranteed a pay level at least two steps higher than that already being received. Supervisory and managerial personnel GS-13 through GS-15 do not receive step increases. They are considered merit pay employees and have a maximum and minimum salary. Non-supervisory personnel GS-13 through GS-15 remain in the step system. [Ref. 1: E-5]

One of the basic tenets of the GS pay system is equal pay for equal work, regardless of the CONUS geographical location. Employees in this system receive an annual salary vice an hourly wage. Salaries are based on an annual survey, conducted by the Bureau of Labor Statistics. The survey attempts to determine the private industry pay levels for jobs that are comparable to Federal service jobs. It should be noted that this can create problems for recruiting and maintaining a civil service work force in high cost areas. The Federal Government is experimenting with programs that will adjust Federal employees pay for work in high cost of living areas.

The pay scale for General Schedule employees effective January, 1990 is represented in figure 1.

---

Grade/Step	1	2	3	4	5	6	7	8	9	10
1	10,581	10,932	11,286	11,637	11,990	12,197	12,544	12,893	12,910	13,232
2	11,897	12,180	12,574	12,910	13,053	13,437	13,821	14,205	14,589	14,973
3	12,982	13,415	13,848	14,281	14,714	15,147	15,580	16,013	16,446	16,879
4	14,573	15,059	15,545	16,031	16,517	17,003	17,486	17,975	18,461	18,947
5	16,305	16,849	17,393	17,937	18,481	19,025	19,569	20,113	20,657	21,201
6	18,174	18,780	19,386	19,992	20,598	21,204	21,810	22,416	23,022	23,628
7	20,195	20,868	21,541	22,214	22,887	23,560	24,233	24,906	25,579	26,252
8	22,367	23,113	23,859	24,605	25,351	26,097	26,843	27,589	28,335	29,081
9	24,705	25,529	26,353	27,177	28,001	28,825	29,649	30,473	31,297	32,121
10	27,206	28,113	29,020	29,927	30,834	31,741	32,648	33,555	34,462	35,369
11	29,891	30,887	31,883	32,879	33,875	34,871	35,867	36,863	37,859	38,855
12	35,825	37,019	38,213	39,407	40,601	41,795	42,989	44,183	45,377	46,571
13	42,601	44,021	45,441	46,861	48,281	49,701	51,121	52,541	53,961	55,381
14	50,342	52,020	53,698	55,376	57,054	58,732	60,410	62,088	63,766	65,444
15	59,216	61,190	63,164	65,138	67,112	69,086	71,060	73,034	75,008	76,982
16	69,451	71,766	74,081	76,396	78,190	79,438*	81,708*	83,978*	85,470*	
17	79,762*	82,420*	85,078*	85,470*	85,500*					
18	86,682*									

---

\* The rate of basic pay payable to employees at these rates is limited to the rate for Level V of the Executive Schedule which will be \$78,200.

**Figure 1**

## 2. Federal Wage System

The pay plan applicable to Appropriated Fund and Non-appropriated Fund (NAF) employees in recognized trades or craft, or other skilled mechanical crafts, or in unskilled, semiskilled, or skilled manual-labor occupations, and other employees including leaders, foremen, and general foremen in positions having trade, craft, or laboring experience and knowledge as the paramount requirement. Such positions are exempt from coverage by Chapter 51 of 5 U.S. Code. Public Law 92-392 (Henderson Act) covers FWS employees.

1. Wage Grade (WG). A pay plan for non-supervisory employees.
2. Wage Leader (WL). A pay plan for employees who lead and perform work, but do not have the degree of responsibility as a supervisor.
3. Wage Supervisor (WS). A pay plan for employees with full supervisory responsibility.

This system is based on the principle that pay will be fixed in accordance with prevailing rates in the local geographic area. Local wage survey committees, two man management-labor teams, designated from the largest Federal Agency in the area, visit local industries to determine the actual wages paid for selected jobs of comparable skill. The information is forwarded to the Wage Fixing Authority in Washington, D.C. who establishes a revised wage schedule for the area.

Each grade of a regular wage schedule has five pay steps. An employee with satisfactory performance automatically advances to the next step after the required time as referenced in the following chart.

---

<u>Steps</u>	<u>Requirement</u>
1	Normal entry level at appropriate grade
2	26 weeks of creditable service
3	78 weeks of creditable service
4	104 weeks of creditable service
5	104 weeks of creditable service

---

### **3. Excepted Service**

This classification is normally part of the General schedule employees but have special payroll rules and work requirements. The most common of this classification are:

1. Student/Intern Appointments
2. Faculty Member Appointments
3. Federal Wage System
4. Selective Placement Program
5. Rehabilitation

The local Civilian Personnel Office will provide specifics about each classification. Due to the special rules governing these categories of employees, there hiring and use can provide significant savings of both real dollars and MTP expenditures. The saving that can be expected will be discussed in the budget formulation and execution sections.

### **C. DIVERSITY OF PAYROLL SYSTEMS**

#### **1. Current Systems**

The Navy is currently using a nonstandard payroll system that consists of 51 payroll offices utilizing five standard systems maintained by four central design agencies and four unique systems maintained by three local design agents all operated on a myriad of different hardware models.

This diversity of payroll systems and subsystems is a terrible waste valuable resources. With so many different systems, problems abound in the areas of with training and

information/hardware compatibility. Employees trained to operate one system must be totally retrained if they change jobs to another dissimilar payroll office. The current process requires each level of processing to manually repeat the previous levels work. For example, when a new employee is hired, the civilian personnel office creates the appropriate paperwork. This paperwork is forwarded to the employees payroll office and again keystroked into the payroll offices system. Any personnel transaction entered into the Civilian Personnel NCPDS system is duplicated by the payroll offices. When an employee changes jobs that requires a change in payroll office his records must be manually input into the new payroll offices system. In at least one instance two payroll offices occupy the same building serving different activities and are unable to transfer information electronically between themselves. This redundancy of work and information is a significant cost to the Navy and a waste of resources.

## **2. NAVSCIPS**

To eliminate much of the waste described above the Navy Standard Civilian Payroll System (NAVSCIPS) has been developed and is in the process of being implemented. Currently two activities have implemented NAVSCIPS, FAADCLANT Norfolk and NSC Charleston. The system will create a data network between user activities, the FIPCs, and NAVCOMPT. There are plans to consolidate many of the payroll offices and link the various

activities thereby eliminating the need for hardcopy documentation and local memorandum accounting systems.

Activities will be able to input time and attendance and labor data via on-line data terminals directly into the payroll office or as batch input, using Source Data Automation interface (SDA), through a collection system external to NAVSCIPS.

This is such a significant change that a whole chapter is devoted to its discussion.

#### **D. COMPONENTS OF AN EMPLOYEES PAY**

##### **1. Base pay - Direct**

An employee's pay subject to retirement deductions under CSRS or the Basic Benefit plan, generally excluding such compensation as bonuses, overtime pay, special allowances, etc. These funds are Object Class 11 (OC 11) funds and are the responsibility of the field level comptroller. They are discussed in greater detail in the Budget Formulation and Budget Execution sections.

##### **2. Benefits - Fringe**

The cost of the government's share of civilian employee's retirement, life insurance, health insurance, social security, and thrift savings plan. These items are discussed in the following sections.



## **a. Retirement Plans**

1. *CSRS*. The Civil Service Retirement System that covered all eligible civil service employees who were hired prior to 1984. It was designed many years ago for a workforce that usually made working for the Federal Government a career decision.

2. *Federal Employees Retirement System (FERS)*. This is a new retirement plan that took effect on January 1, 1987, with some retroactive coverage. The intent of FERS is to provide federal employees a savings and retirement system with tax benefits similar to private corporation employees. It was designed to recognize today's workforce is not as likely to stay in Federal Service until retirement. Generally FERS employees include those hired after December 31, 1983 and any CSRS employees who chose to convert to FERS. "It is a retirement plan that provides benefits from three different sources: a Basic Benefit Plan, Social Security, and the Thrift Savings Plan." [Ref. 2: p. 11]

1. Basic Benefit Plan is the first tier of FERS. The Basic Benefit Plan provides annuities and lump-sum payments based on years of service and salary.
2. Social Security the second tier of the FERS retirement system. It is the same program that covers most of American workers. Current contributions by government and worker is 6.20% each.
3. Thrift Savings Plan (TSP) is available to employees under both CSRS and FERS. However there is a major difference in the impact of this program on the comptroller. TSP under FERS requires a significant government matching. The following chart shows the activity contribution:

---

Percent of Basic Pay Contributed to a FERS Employee		
<u>Employee Contribution</u>	<u>Activity Contribution</u>	<u>Total Contribution</u>
0%	1%	1%
1%	2%	3%
2%	3%	5%
3%	4%	7%
4%	4.5%	8.5%
5%	5%	10%

---

Additional information on retirement plans can be obtained from civilian personnel office and from publications prepared by OPM.

**b. Health Insurance**

Several health benefit plans are available to the civilian employee under the Federal Employees Health Benefits Program. The cost to the government for these programs can be significant. The government is obligated to pay for 60% of the high option costs as determined by an average of the six largest health insurance providers or not more than 75% of any plan.

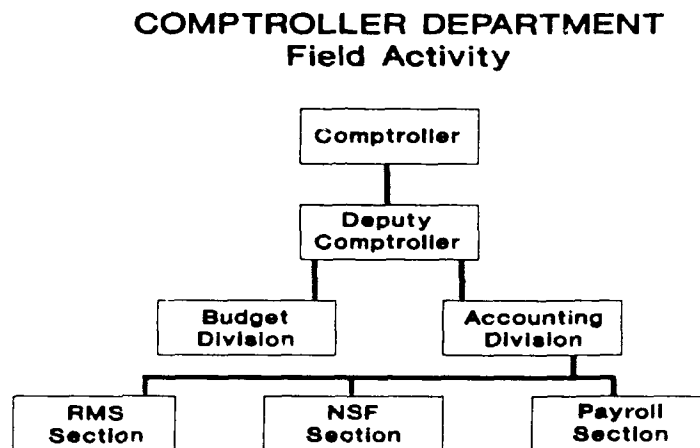
**c. Life Insurance**

Life insurance is another optional program coming under the Federal Employees Group Life Insurance Program and has three categories: basic life insurance, standard life insurance, and additional life insurance. The government is obligated to pay for one third of the cost of basic life insurance. The amount of basic coverage is equal to the annual

salary rounded up to the nearest \$1,000.00 plus an amount ranging from \$2,000.00 to \$10,000. The government pays approximately nine cents on \$1,000.

#### **E. COMPTROLLER ORGANIZATION**

Figure 2 represents the typical organization of a field level comptroller department. Civilian pay budget formulation is conducted by the budget division while the execution of civilian pay is the responsibility of the accounting division.



**Figure 2**

While the budget formulation and execution functions are performed in separate divisions, it is critical the two divisions work closely together.

##### **1. Budget Division**

Personnel in this division provide the technical guidance and instructions for budget preparation. Their many responsibilities include:

1. Review requirements and justifications for the various programs.
2. Prepare estimates of the cost of the various programs.
3. Compile budgetary data as required throughout the budget cycle and prepare requests and justifications for additional funds when necessary.
4. Recommend distribution of available funds and prepare funding documents for authorized funds distribution.
5. Analyze variances from the plan and recommend changes that may be necessary.
6. Determine and recommend areas that reprogramming might be necessary or desirable.

## **2. Accounting Division**

The personnel in this division are responsible for:

1. Maintenance of required records including records of obligations and expenditures against allotments and project orders.
2. Prepare accounting reports for both local management and higher authority.
3. The supervision and conducting of timekeeping operations [Ref. 3].

## **F. MANAGING TO PAYROLL (MTP)**

"Managing to Payroll is a fundamental change in the way we manage our personnel resources. Essentially, line management is assigned responsibility for *position management* and *position classification*. [Ref. 1: p. 21] The scope of the new authority delegated under managing to payroll includes:

1. POSITION MANAGEMENT - the authority to create positions.

2. POSITION CLASSIFICATION - the authority to assign title, series, and pay grade to positions.
3. PERSONNEL BUDGET EXECUTION - the authority to control civilian payroll expenditures within assigned levels.

The three main objectives of Managing to Payroll are:

1. to increase individual managers' responsibility and accountability for managing civilian resources,
2. to simplify the classification of positions and
3. to control payroll costs through the budget process.

The September 1987 issue of *All Hands* magazine indicates there are three important requirements for MTP to work. These are:

1. There can be no arbitrarily imposed external controls, such as ceilings or average grade.
2. The manager must be thoroughly trained in the process of classification and budget execution of civilian payroll, including salaries, awards, and overtime.
3. There must be an established oversight and evaluation system for monitoring the program.

Current implementation has been successful with regard to requirement number three, but have fallen far short with regard to requirements one and two. This has created considerable problems for all activities in the budget formulation and execution of civilian pay.

It is important to recognize that MTP is an ACCOUNTING/BUDGETING LIMITATION and does not reflect the actual dollar availability.

Officially, "MTP is only an execution year tool which provides line managers with *expanded authority to hire and*

*classify civilian personnel within the constraints of a payroll dollar limitation based on approved budget estimates."*

[Ref. 4]

It might appear that managing to payroll has solved all the ills of the civilian personnel system. In reality, it has made possible many positive changes in the way we do business, but it has created a new set of problems. For this reason it is essential to recognize what long range impact there might be on the organization as a result of changes to the work force. These problems and shortcomings of MTP will be discussed in the budget formulation and execution chapters.

Why MTP? "In years past, many personnel management studies highlighted difficulties in the Department of the Navy with hiring and managing civilian personnel." [Ref. 5: p. 31] One of the earliest was the Oliver Report conducted in 1972 on job classification and pay. Another significant study was conducted in 1981 by an Office of Personnel Management (OPM) Classification Task Force. Numerous problems were identified including the adversarial relationship that existed between managers and classifiers. In 1985/6 Coopers and Lybrand, an independent accounting firm, studied Navy Industrial Funded activities and concluded that the personnel policies in effect had many counterproductive results, some of which were:

1. Poor business judgments.
2. Misplaced authority and lack of accountability.
3. Increased personnel costs.

4. Ineffective use of personnel.

5. Delayed recruiting.

They also found that local authority over personnel resources were preempted by higher echelons. [Ref. 6]

This study called for numerous reforms to the overall DON Personnel System. These recommendations included:

1. Establish a more business-like approach to managing personnel resources.
2. Relieve managers from internal controls that are not business oriented.
3. Seek relief from external controls that impede a more business-like approach. [Ref. 6]

"Line managers often expressed the feeling that they lacked sufficient authority to determine and control staffing and funding levels in their own organizations. Job classification, and a host of other personnel actions were generally controlled by a central personnel office which was not always responsive to the line manager." [Ref. 5: p. 31]

Additionally, in the budget arena, the DON was having difficulty convincing Congress that statutory ceilings on civilian employment were not required.

Congress finally agreed to lift the ceiling in 1985. "However, in fiscal year 1985, the Department of Defense spent \$800 million more on civilian payroll and benefits than was reflected in budget estimates sent to Congress. The Department of the Navy was responsible for \$500 million of that variance.

Needless to say, Congress was not happy with DOD's performance. In 1987 an agreement was reached with the House of Representatives not to re-impose civilian ceiling controls on the Navy. This was a "one more chance" agreement to demonstrate the Navy could prudently manage without end strengths. MTP is the management system that the Navy has implemented to demonstrate to Congress that the budget can be responsibly executed without external constraints. As will be discussed later, MTP has been implemented but the Navy is still not free from end strength considerations.



### **III. BUDGET FORMULATION**

#### **A. DISCUSSION (CPF 12510.2)**

At the activity level, under Managing to Payroll, Commanders and Commanding Officers are responsible for delegating authorized funding levels to the same level as classification management. The funds the activity is responsible for are classified as Object Class 11 (OC-11) funds and are described in section one below. Since line managers are the most familiar with their own units requirements, they should be responsible for the management of funds for their unit. Likewise, the line managers should be involved in the budget formulation process.

Obligations for which the activity is responsible for includes the following components of pay:

##### **1. Basic Compensation**

Regular salaries and wages paid to full time employees and salaries associated with compensatory time, annual, sick, or other paid leave and terminal leave payments.

##### **2. Other Basic Compensation**

Wages and salaries paid to part-time or temporary employees.

### **3. Other Compensation**

Payments above the basic rates paid directly to civilian employees, other than overtime and holiday premium. Other compensation includes payments for:

1. Intermittent employment. Pay for consultants or employees with appointments.
2. Cash incentive awards. Payments for cash awards that do not become part of the employee's basic rate of pay.
3. Sunday Pay. For eight hours or less of regularly scheduled work performed on Sundays.
4. Nightwork Differential pay. For regularly scheduled nightwork.
5. Hazardous Duty Pay. For pay associated with the performance of duties that subject the employee to unusual hazards or physical hardships.
6. Post Differentials. Authorized under 5 U.S.C. 5925 for service in hardship posts abroad that are based on conditions substantially different from those in CONUS.

### **4. Overtime**

Payments above the basic rate usually associated with work in excess of an eight hour day or forty hour work week.

### **5. Holiday Premium**

Payments above the basic rate for services of eight hours or less on holidays or days treated as holidays.

### **6. Other**

Premium pay such as stand-by pay and premium pay in lieu of overtime.

#### **7. Special Personal Service Payments**

Witnesses, casual workers, patient and inmate help; payments for salary equalization authorized for individuals on leave of absence for employment with international organizations, state or local governments.

#### **8. Awards and Beneficial Suggestions**

Because awards of all types may be payable from station O&MN funds, their timing and amount directly affect the budget. GS employees in grades GS 1-18, or equivalent, and prevailing rate employees are eligible. OCPMINST 12430.1 discusses eligibility requirements, approval levels, and funding levels. Maximum funding levels shall be 1.5 percent of aggregate base salaries of covered employees. No minimum funding level is imposed on the activity. Employees may be considered for performance awards using the percentage amounts as shown in the chart that follows:

---

Payout Conversion Table

<u>Ratings</u>	<u>Within-grade Increase</u>	<u>Quality Step Increase (QSI)</u>	<u>Performance Award (PA) % of Salary</u>
O	Full	Eligible <sup>1</sup>	2 - 20% <sup>2</sup>
EFS	Full	No	0 - 10%
FS	Full	No	0 - 10%
M	Zero	No	0
U	Zero	No	0

<sup>1</sup>The payment of QSI's and/or PA's is optional.

<sup>2</sup>Awards of more than 10% and up to 20% may be given for unusually outstanding performance. They must be approved by the command HQ's

---

Performance awards always involve cash and are given just once a year for recognition of individual performance. Another type of award is an incentive award and can be either a monetary or non-monetary award for a contribution resulting in savings or cost reduction or for an intangible benefit. Naturally, every activity must budget a certain amount for these awards, up to 1.5% of aggregate base salaries, so it is important to plan adequately for financing them. In a tight fiscal environment consideration should be given to the use of one time awards, such as, sustained superior performance, or nonmonetary awards over permanent awards, such as, quality step increases.

## B. LINE MANAGER PARTICIPATION

The activity comptroller, with assistance from the civilian personnel office, should provide the line manager with civilian employment compensation data and information regarding the status of employees. Figure 3 [Ref. 7] provides a sample format for providing this information to the line manager. This is only a sample and each activity might want to design a method of providing line managers with the appropriate information.

1 Octxx Staffing	Annual Salary	Within Grade	Amts Due Within Grades	Projected Losses	Overtime Awards
1 GM-15	53,422			Retire	
1 GM-14	45,416				
3 GM-13	115,301				
2 GM-12	73,261	3-28/4-6	529/517		
3 GM-11	86,291	10-5/10-29	869/809	Resigned	
		8-20	98		
2 GM-09	44,576	5-30/6-16	275/240		
2 GM-05	29,419	7-17/7-3	98/116		200
1 GM-04	13,148	9-8	300		100
TOTALS	460,834	N/A	3,576	N/A	300 8,000
TOTAL COMPENSATION REQUIREMENT: \$472,410					

The following variables apply:

1. Benefits are not included in salaries.
2. Salary projections include pay raise effective 1 Oct 19xx.
3. Average recruitment time is five months.
4. Awards amount reflects the total dollar amount budgeted in FYxx.
5. Overtime is not included in salary allocation.
6. GM-15: Annual salary is for whole year, but will only be employed four months. Savings will be \$35,615.
7. Planned resignation will save \$24,718.
8. Total savings anticipated: \$80,333.00 can be used to fund temporary/part-time employment or used for additional overtime, awards, or other compensation.

**Figure 3**

The pertinent information provided the line manager should include:

*Annual salaries* - this amount can include both object class 11 costs plus an acceleration to cover fringe benefits. The line manager should divide the annual salary by the number of work days in the year to arrive at a cost of that employee per day.

*Projections for changes* in the work force to include promotions, wage grade and step increases, hiring, planned resignations or retirements, transfers, and possible lapse rate.

With regard to lapse rate, NAVCOMPT and Major Claimants usually provide a standard lapse rate to use in budget formulation and use this figure to decrement the funds for a command. The financial manager should make a point to analyze their activity's actual lapse rate and if less than the "standard" the activity should so state in the budget submission.

*Consideration of leave without pay, awards, beneficial suggestions, and other requirements* for the activity.

Upon receipt of compensation information, the line manager develops known and projected requirements. Full consideration should be given to the information provided by the comptroller and civilian personnel.

The line manager then must compare his/her projected requirements with the existing allocations provided by the comptroller from the most recent budgetary controls. Differences in requirements and controls must be resolved.

If requirements are less than allocation the line manager can proceed with execution. If not, the line manager must re-evaluate to determine if any action can be taken to reduce requirements. The comptroller at the activity level must work with all the unit managers to establish priorities and alternative plans.

The line manager's input is then consolidated into the activity's overall budget submission. [Ref. 8]

### **C. MANAGING TO PAYROLL**

It was stated previously that MTP is an execution tool only. Then why include MTP in the budget formulation section? It is included because of the impact MTP can have on the availability of funds (real dollars) and on MTP authority in future years.

Managing to Payroll was established by the Secretary of the Navy in 1986 as the single labor financial management system for the Navy. The implementing instruction, SECNAVINST 12510.9, directed no other execution controls should be applied to managing civilian labor. Actual program implementation has been dramatically different. The problem arises from end strength controls imposed on the Navy by Congress.

End strength (E/S) is defined as the budget limitation on the number of civilian personnel an organization may employ. Although E/S is not an execution control, it has a major

affect on the availability of MTP. Additionally, end strength increases can only be obtained through the POM budget process.

According to Mr. Clark L. Barker, a senior budget analyst with the Office of Comptroller of the Navy, "The MTP fiscal limitations issued to major commands are not arbitrary calculations manufactured at headquarters in the dark of night but are extracted directly from the approved budget estimates." [Ref. 5: p. 34] The MTP program does not replace the budget process. It is exclusively an execution tool. Mr. Barker continues, "It does not change or diminish traditional requirements to develop and justify detailed budget estimates which include end strength and work year data as well as cost estimates for basic pay, overtime, differentials, and benefits." [Ref. 5: p. 32] MTP places a dollar limit restriction on the amount of OC-11 funds an organization may spend which is very different from the amount of funds available to spent.

However, there is a fundamental disconnect between budget formulation and MTP execution that has not been corrected. This problem can not be corrected until end strength controls are lifted by Congress.

The Office of the Comptroller of the Navy (NAVCOMPT) will not accept a budget submission where E/S is exceeded or where budgeted average salary does not reflect execution.



The following example demonstrates the need to recognize both E/S and MTP in organizational changes and in budget formulation:

Current Year Budgeted	
Current E/S	500
Average OC-11 Salary	\$25,000
MTP available	\$12,500,000

The organization decides to hire more lower graded personnel within current MTP limitations. This causes the organizations work years to increase to 595.

Work years (W/Y) are defined as the unit of work hours equal to one person for one year. This normally equates to between 2,080 and 2,096 hours per work year. In our example the increased work years causes the organization's average salary to drop to \$21,000.

Current Year Actual	
W/Y	595
Average OC-11 Salary	\$21,000
MTP utilized	\$12,500,000

The next fiscal years budgeted MTP would be computed as follows:

Next Fiscal Year Budgeted	
E/S	500
Average OC-11 Salary	\$21,000
MTP available	\$10,500,000
MTP shortfall	\$2,000,000

Whereas the MTP program provides and organization flexibility to structure the workforce within available

resources, in reality commands must live within prescribed end strength. Although SECNAVINST 12510.9 states, "If end strength controls are applied to DON by higher authority, they will be allocated no lower than the major claimant level; lower allocations will be by payroll allocation, not by end strength," the commanding officers/managers who do not recognize the importance of end strength risk out-year reductions in MTP authority and cuts to funding. Despite the fact Managing to Payroll instructions "eliminate" end strength considerations, organizations should still manage with end strength as their guide point. Every attempt should be made to stay within established end strength at the end of the fiscal year. This is contrary to the spirit and intent of the MTP program but is necessary to protect the organization from unexpected cuts in MTP authority until fundamental changes are made in MTP implementation.

Several categories of labor are exempt from MTP accounting. It is possible that an activity could have sufficient O&MN funds available for hiring personnel but not have sufficient MTP authority. In a case such as this the activity could hire someone from the following categories without affecting their MTP.

#### **1. Contractor Support (A-76)**

Many commands that are faced with not having enough MTP are turning to contracting work out because this labor does not count against the activities MTP authority.

## **2. Disadvantaged Employment Programs**

This is an excellent source of labor that does not count against the activities MTP authority and includes the following:

1. Federal Junior Fellowships
2. Stay-In-Schools
3. Summer Aids
4. Worker Trainee Opportunity Program

### **3. SES/Supergrades**

### **4. Non-Appropriated Fund**

### **5. Foreign Nationals at the Option of Command/Activity**

Different rules apply to each category and can be explained by the Civilian Personnel Office. The Comptroller should be aware of this category and ensure inclusion in the labor plans. A word of caution, these employees must be coded properly to ensure they are not charged against MTP authority by the payroll office. This is discussed in the budget execution chapter.

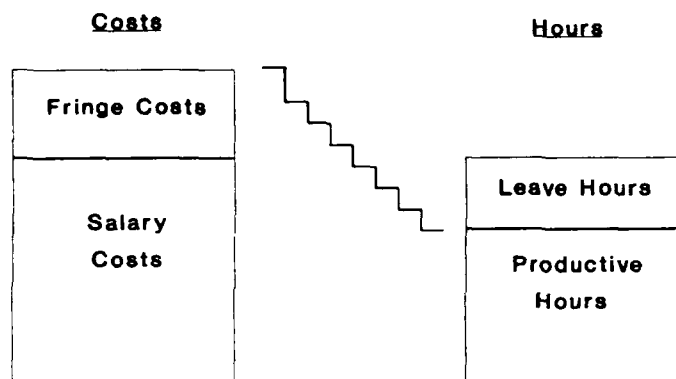
## **D. PAYROLL COSTS AND BUDGET IMPACT**

There are several important considerations concerning payroll costs and their relation to budget formulation and execution that merit the attention of every Comptroller. Because of their significant impact on the budget we will discuss each one below.

### 1. Accelerator

Up to this point, we have not considered the true cost to the government for labor expended. We will examine civilian labor costs in two ways, the total cost of labor and the cost of a productive hour. Figure 4 depicts the relationship between these two concepts.

#### Reimbursable Civilian Labor Cost Distribution



**Figure 4**

Cash-paid categories are the gross salaries paid and employer contributions to fringe benefits. These two added together represents the total cost incurred for hired employees. However, this does not provide a true picture of that employee's cost per productive hour. To obtain this true cost the total costs must be divided by the productive hours. This will yield a cost per productive hour that is higher than the cost per paid hour, since pay is given for leave time as well.

In the Navy we accelerate the hourly paid compensation rate by a percentage to yield the cost per productive hour. This is the rate that will be used to charge reimbursable jobs on which an employee works. As an example, assume the following conditions:

1. An employee has an annual salary of \$20,000.
2. Fringe benefits cost \$1,600.
3. There are 2,096 paid hours in a year, including holidays. Note: the number of paid hours in a year will vary. 2,096 reflects FY92, for FY90 it is 2,080 and for FY91 and FY93 it is 2,088.
4. The employee takes 336 hours of leave during the year, including holiday, sick and annual leave, yielding 1,760 productive hours. (productive hours average approximately 84%)

Using these assumptions the following calculations can be made:

1. Cost per hour paid: \$20,000 annual salary divided by 2096 paid hours in the year = \$9.54 per hour paid.
2. Total cost per productive hour: \$20,000 plus \$1,600 fringe = total cost of \$21,600 divided by 1,760 productive hours in the year = \$12.27 per hour for productive time.

It is important to recognize that explicit recognition is being given to the difference between cost per hour paid and cost per productive hour. An acceleration rate is applied to cost per hour paid to yield a true cost per productive hour. The acceleration rate is computed as shown below.

The cost per productive hour minus the cost per hour paid divided by the cost per hour paid yields the acceleration rate. In our example acceleration is 29%.

$$\frac{\$12.27 - 9.54}{\$9.54} = \frac{\$2.73}{9.54} = .29 \text{ or } 29\%$$

The acceleration rate is composed of two main elements, leave acceleration and fringe acceleration. These can be computed as follows:

Leave divided by productive hours equals leave acceleration. And fringe costs divided by productive hours equals fringe acceleration. In our example these are:

$$\frac{336}{1,760} = .19 \text{ or } 19\% \text{ leave acceleration} \quad \& \quad \frac{1,6000}{1,760} = \$ .91/\text{hour} \text{ Fringe or } 9.54 \text{ acceleration}$$

It is important to understand why it is necessary to be concerned with acceleration. The station O&MN funds, OC 11 funds to be exact, pay for leave and fringe benefits. If the activity has only direct O&MN funds and no reimbursable funding, then the acceleration technique is not of great concern because the budget is prepared to cover full salaries plus the government contribution to fringe benefits. But, if the activity has reimbursable work to perform, through funded reimbursable work orders, then this process is important to ensure recover of all the cost associated with the reimbursable work. Without this process the activity performing the work would be paying the full costs of the worker but only charging for the hourly rate. As we have seen this would cause the activity to lose compensation for the fringe and leave costs of that worker.

The objective of acceleration is to cause all reimbursable job orders to reflect the true cost of labor. But, it is equally important to ensure the labor acceleration rates used are as close to reality as possible. This requires a careful planning and monitoring effort. The activity's FIPC has the rate you establish entered into their computer. Therefore any activity Comptroller, especially ones with a large volume of reimbursable work, should check reported acceleration against planned. If necessary the acceleration rate should be changed with the FIPC for your activity. Unexpected differences can cause overobligations or unreceived credits. A final word:

1. Carefully calculate the proper local acceleration rate.
2. Carefully monitor actual performance against plan.
3. Ensure timely reaction to problems.
4. Pay particular attention at the end of the fiscal year.
5. Plan activity leave to help avoid problems.

## **2. Reductions-in-Force (RIF)**

This is a furlough of greater than 30 calendar days and is authorized under 5 CFR Part 351 (reduction in force). In the short run this process can increase costs to the activity. Many one time costs in the thousands of dollars can arise from a RIF. These may include severance pay, lump-sum leave payments, and moving costs, depending on seniority of the employee. In determining any savings, indirect and

nonbudgetary costs should also be considered. These costs include the expense of staff time in processing and administering a RIF, placement activities, and the handling of appeals and grievances.

### **3. Lump-sum Leave Payments**

A possible source of trouble with an established budget is unforeseen expenditures for lump-sum leave. This is even more likely during periods of fiscal constraint. Often times early retirement programs are initiated by the Federal government or employees choose to retire rather than be subject to a RIF. In these cases the employee can be entitled to up to thirty days lump-sum leave. If the possibility hasn't been considered during the budget formulation phase the organization could have problems.

### **4. Leave Without Pay**

Through this process an employee volunteers to take leave without pay. This process achieves short-term savings and is valuable to meet budgetary restrictions.

### **5. Moving**

This category can cause extreme problems with availability of funds. Depending on the circumstances of the hiring, such as hiring off the register, and the grade of the employee, the costs involved can be enormous. They can include the cost of selling and buying of the incumbents house or lease termination, transportation of employee and dependents,



temporary quarters subsistence, the movement of household goods, and nontemporary storage of household effects.

**6. Furloughs**

A furlough is defined as "the placing of an employee in a temporary nonduty, nonpay status (for up to 30 calendar days or 22 work days) because of lack of work or funds, or other nondisciplinary reason."

#### IV. BUDGET EXECUTION

##### A. DISCUSSION (CPF 12510.2)

"With existing and future fiscal funding to be austere for the foreseeable future, it has become more than just critical for installation commanders to closely manage funds to get the most for every dollar. Innovative and aggressive methods to 'do things smart' are continually encouraged down the chain of command." [Ref. 9]

Delegation of authority to execute management of civilian compensation places direct responsibility upon the line manager to ensure that expenditures do not exceed funded levels as established by the activity Commander through the Comptroller.

Managers should ensure that financial resources are used effectively and that variances in planned requirements are detected and potential payroll budget implications are identified in a timely manner. Early warnings provide increased flexibility for reprogramming if necessary.

Often MTP authority and availability of funds do not match. The activity may have the funds available to perform required work but may not have sufficient MTP authority.

Functions that could be performed in-house utilizing temporary labor need to be contracted out to avoid exceeding

MTP authority. Reimbursable work is charged against the MTP of the activity performing the work. Additional authority can be addressed up the chain of command but relief is unlikely and time consuming. The lack of MTP authority in the "eleventh hour" stifles day-to-day operations. As one frustrated command commented, "When 'every labor issue' has to be weighed when deciding whether or not a function can be performed (not because of lack of 'real' funds but because of an accounting limitation), it emphasizes the absurd logic of the existing rules." [Ref. 9]

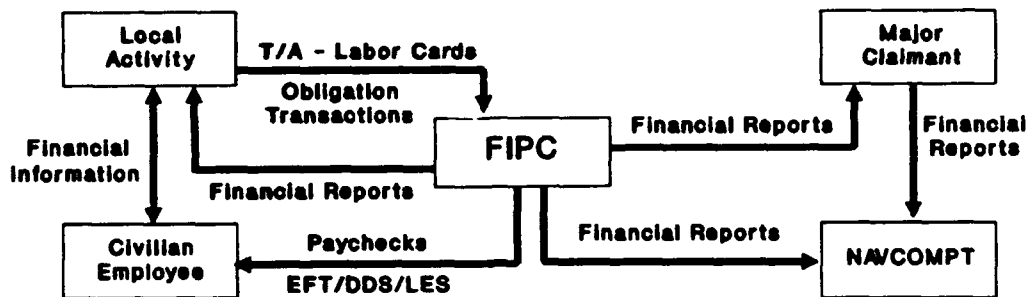
The end result is that many activities will reject reimbursable work and contract out their own work to remain within MTP authority. The monitoring of MTP is a critical function of the line manager and the comptroller. The following section discusses some of the reports used to monitor MTP.

## **B. MONITORING PAYROLL COSTS**

### **1. Internal and External Reporting Requirements**

Figure 5 represents the flow of information into and out of the FIPC in support of the reporting requirements for civilian pay. Local activities and civilian personnel offices are the primary source of information for the FIPC. The inputs from the field update the FIPC databases and provide information that is the basis for reports up and down the chain of command. Each level in the process should take great

## Integrated Disbursing and Accounting (IDA) Financial Information Flow



**Figure 5**

care in ensuring the accuracy of data, both submitted by them and reported to them. But it is the field level activity that might suffer the greatest consequences of inaccurate reporting. Therefore, they should expend an extra effort to ensure their accounting information is reflected accurately.

Managing to Payroll execution reporting is accomplished through a monthly message report, the Managing to Payroll Object Class 11 Obligation Report (RCS DD-COMP (M)1445(7300). This report is generated by the FIPC for the field level activities and sent to their major claimant no later than the eighth workday following the end of the reported month. The major claimant will report to the Navy comptroller no later than the tenth workday. The report covers all compensation included in Object Class 11. For further information refer to NAVCOMPTINST 7300.113 the FIPC.

The FIPC also prepares the Civilian Personnel Resource Reporting System (CPRRS) NAVCOMPT Form 2270 report. This monthly report is a consolidation of the bi-weekly RMS labor report for use by the field level activities. This report and the NAVCOMPT 2035, Report for employer fringe benefit payments (which contains the detailed fringe benefit lines posted to the CPRRS), should be checked closely to ensure they match the OC11 Obligation Report.

Numerous other reports and products are generated from the payroll office/Financial Information Processing Center (FIPC) for use by the activities serviced by that payroll office. The following list is representative of these bi-weekly and quarterly reports and products: [Ref. 10]

*Bi-weekly Product/Report*

1. Time & Labor Cards: (Blank Time & Labor cards are prepared and mailed by the FIPC two weeks prior to the pay period beginning date)
2. Calculation Exception Listing
3. Bi-weekly Leave Balance Listing
4. Payroll for Personal Services NAVCOMPT 485
5. Year-to-date Overtime report
6. Overtime/Compensatory Time Review
7. Invalid Employee T&A and Labor Transactions

*Quarterly Product/Report*

8. Direct Deposit statistics Report
9. Leave Availability for Management

As with any reports, their value is a function of their timeliness, accuracy, clarity, and ease of use. Unfortunately not all the reports received at the field activity level meet aforementioned criteria. Information provided by the FIPC is often oriented towards decision making at the claimant level rather than the field activity. The field level activity is in the position of having to transfer the data from the FIPC reports onto locally developed spreadsheets. After some manipulation, the field level activity can generate meaningful reports for internal use.

## **2. Tracking Civilian Labor Costs**

The primary methods of documenting the use of resources are through job order cost accounting and labor distribution. The establishment of a job order facilitates the budgeting and accounting for the cost of resources, whether those resources are labor hours, dollars, or materials. Job orders provide a method for the classification of costs. For reimbursable orders, the job order number is established by the performing activity for each reimbursable order received and accepted. Additionally, job order cost accounting serves as an aid in planning the allocation of those resources. Labor distribution is the process that transfers actual costs of labor to the job order cost accounting system. Labor distribution provides a method of:

1. judging the accuracy of estimates and the budget.
2. determining the actual costs of programs or products

3. detecting trends in performance
4. allocating overhead costs among several projects or products.

The number of job order numbers established will vary greatly between activities. Factors influencing this are the type of activity, the complexity of the tasks involved, and the level of analysis necessary to support the assignment of costs. Some activities will only have a few job order numbers while other activities, such as a public works department, with varied and easily identifiable jobs, would probably have several hundred job order numbers. Whatever the case, job order cost accounting provides a basis for evaluating performance.

The primary source of documenting local activity payroll cost information is a time and attendance (T&A) card and a labor card for each employee. As indicated above, the blank T&A and labor cards are generated by the supporting FIPC out of a file, the MER, that contains employee records for each activity. [Ref. 8: p. 30]

Each time card has the employee's name and payroll number and covers the two week (80 hour) payroll period. A home job order number is assigned to each employee in the FIPC database and all labor costs are allocated to this JON by default unless a labor card is also submitted. The following are examples of a time card and a labor card.

# Time Card

TOUR OF DUTY				EMPLOYEE NUMBER			
WK 1 REG		71		WK 2 REG		71	
OT		72		OT		72	
S		75		S		75	
T		76		T		76	
F		78		F		78	
P		79		P		79	
A		80		A		80	

	IN	OUT	IN	OUT	REG	OT	BONUS	LEAV
SUN								
MON								
TUE								
WED								
THU								
FRI								
SAT								
SUN								
MON								
TUE								
WED								
THU								
FRI								
SAT								

**CERTIFICATION** ATTENDANCE ABSENCES AND OVERTIME  
 CERTIFIED CORRECT I DID NOT SUFFER OR PERMIT ANY  
 OVERTIME WORK OTHER THAN AS REPORTED ON THE TIME  
 AND ATTENDANCE REPORT FOR THE PERIOD

REGULAR HOURS	OVERTIME HOURS

AUTHORIZATION SIGNATURE

TIME CARD NDW NRFC 7410/17 (Rev 6-83)

# Labor Card

PAYROLL CONTROL	ACT	DST	EMPLOYEE NAME	PRODUCTIVE	SEQ ID

JOB ORDER NUMBER	TOTAL HRS	CODE	SUN	MON	TUE	WED	THU	FRI	SAT
			HRS	T	HRS	T	HRS	T	HRS

AUTHORIZED INITIALS	SUN	MON	TUE	WED	THU	FRI	SAT
	HRS	T	HRS	T	HRS	T	HRS

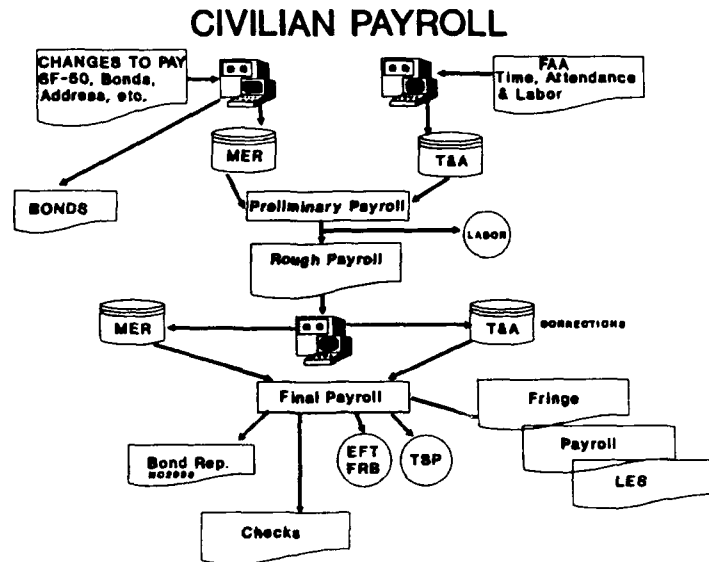
LABOR CARD  
 NDW-NRFC 7410/17A (Rev 6-83)

Figure 6



There are distinct purposes for the labor distribution cards and the time and attendance cards. The fundamental difference is between accounting for labor hours by job order number (JON) and accounting for entitlement to pay. The labor distribution card is the input document that supports accounting for time by job order. The labor distribution cards are processed by the FIPC, yielding output summaries of costs by JON and by appropriation. After FIPC processing, the time and attendance cards provide the basis for accounting reports on earnings, leave, and withholdings. These two cards are inescapably linked through the audit process. Prior to being processed through the labor distribution and payroll process the two cards must be certified as in agreement. Any difference between labor and payroll must be reconciled as to both hours and dollars. [Ref. 1: p. E-9] Figure 7 reflects the overall process.

There are several checks the labor distribution and the T&A payroll cards are subjected to in order to ensure accuracy. The first step is the certification by the supervisor that the time periods and JONs are correct. The payroll section of the accounting division certifies that the job order numbers, time periods, and employees are all proper and valid. A third check happens at the FIPC with a comparison of the cards with the master payroll list and the master JON list. If an erroneous number arrives at the FIPC the employee still gets their check, but the number in question is



**Figure 7**

temporarily charged to a suspense difference job order. Any suspense differences are sent to the field activity on the Labor Exception Report for reconciliation.

While an analysis of labor costs is valuable in budget formulation it is critical in budget execution. During budget execution civilian labor reports provide information on execution progress and proper billing. A typical labor report will include information on station direct labor, labor related to the maintenance of real property (MRP), and reimbursable labor.

During the analysis of labor reports provided by the FIPC the activity should ensure any MTP exempt employees are being accurately accounted for. These employees will be on a separate listing. In order for this to occur the employees must be coded properly by the civilian payroll office. This

requires special attention to the attendance code assigned and the employee class code. Questions should be referred to the civilian payroll office supporting the activity.

### **C. CONTROLLING PAYROLL COSTS**

The control of costs is essential for any organization. The organization should be constantly vigilant towards methods to reduce expenditures and MTP. The following methods reflect ways to reduce costs:

*Recruit at the entry level vice the journeyman level.* This may be easier said than done, however. Competition for personnel and wages in the private sector may make this plan unrealistic in some geographical locations.

*Institute a worker training plan.* As discussed in the previous budget formulation section on MTF exemptions, this will have the added benefit of being exempt from MTP accounting.

*Use one time performance awards vice grade raises as rewards.* Truly outstanding performance should always be recognized. However, recognition via grade increases will have a constant negative effect on funds, whereas, a one time performance award only affect you once.

*Limit outstanding performance rating to truly outstanding performance.* All too often less than outstanding performance is inflated in order to present an award. This can have a

significant effect on funds. The organization should have a review process that recognizes only the truly outstanding.

*Use temporary help for periodic workload peaks.* This requires establishing a temporary work pool in advance, but the benefits derived from greater flexibility, the ability to be proactive, and the lower costs associated with temps is worth the effort.

*Minimize the use of deputies and assistants.* Care should be exercised when eliminating deputy positions, especially when the senior is military. The civilian deputy to a military superior is often a critical element for continuity.

*Reassess the size of staff support offices.* Can some staff support functions be transferred to the line organization? Reorganization of some staff functions can save money and maximize productivity.

*When establishing a grade level for a position, grade to the work not the person.*

When the aforementioned practices fail to provide the necessary savings required to lower expenditures, the following other methods should be considered:

*Attrition:* This is one of the best methods to reduce the work force and save money. Through attrition, the organization can achieve true long-term saving by not filling positions deemed unnecessary.

*Leave Without Pay:* Through this process an employee volunteers to take leave without pay. Voluntary leave without

pay probably has the least long-term impact on the organization while achieving some short-term savings.

*Furloughs:* If less stringent means fail to provide necessary budgetary savings, it may be necessary to consider the use of short term furloughs (up to 30 calendar days or 22 work days.) A furlough is defined as "the placing of an employee in a temporary nonduty, nonpay status because of lack of work or funds, or other nondisciplinary reason." [Ref. 11: Attachment 1,1] This is equivalent to leave without pay but is an involuntary action imposed on the employee(s). Furloughs are authorized under 5 CFR Part 752 (Adverse Actions). Under this regulation the employing activity must provide an employee 30 days advance notice of their intent to furlough. Through advanced planning an activity can reduce the impact of a furlough on the work force. This could be accomplished through the use of discontinuous furlough or intermittent days furlough, such as one workday per week for 15 weeks. Alternately the activity may elect to use the consecutive furlough.

*Reductions-in-force (RIF):* The most extreme action is the RIF and is definitely a last resort option. As discussed earlier, in the components of pay section, a RIF is a furlough of greater than 30 calendar days. The short term cost saving are just not realized due to the costs of terminating someone's employment and the disruption to organization. The only hope of saving any money with a RIF is in long term

savings, and these may not be realizable. The organization may be smaller but you may have to pay for severance pay, lump-sum leave, and moving costs plus overpayment to downgrade employees who continue to receive their higher pre-RIF salaries while occupying jobs at lower grades. Employees who have lost employment through a RIF are also entitled to preferential hiring, such as, stopper lists and moving expenses. This could increase your costs of hiring if you needed to grow again after the RIF.

*Cancel Career Promotions:* Under extreme situations the Commanding Officer could seek to cancel career promotions. However, this could have a significant affect on morale and retention. The gains should be closely scrutinized against the potential problems.

An important variable in determining the cost savings from different plans for reducing staffing levels is the rate of attrition used. In a GAO study conducted in July 1985 it was found that most activities could reduce to a post-RIF level in 12 or less months. [Ref. 12]

When an activity is faced with budgetary constraints that necessitate one of the above actions the advice and assistance of the Civilian Personnel Office is invaluable. A 13 step checklist is provided in the Appendix to assist in comparing the costs of the alternatives.

## V. FUTURE CHANGES

Many of the problems discussed earlier regarding incompatibility between field activities, payroll offices, FIPC's/AAA's, and CCPO's are expected to be rectified through the implementation of the Navy Standard Civilian Payroll System (NAVSCIPS). It is a combination of on-line and batch processes which support the requirements of a biweekly pay cycle. Currently two payroll offices, FAADCLANT and NSC Charleston, have been converted. The remaining payroll offices are scheduled to be implemented by December 1992.

The system has two main objectives. First, to standardize Navy civilian pay in the areas of interpretation of regulations, calculations, computer hardware and software, and operations. (The reader will recall that currently the Navy is using 10 different payroll systems at 51 payroll offices.) The secondary objective is to fulfill all necessary reporting requirements of pay and pay related data.

In summary, the goal of NAVSCIPS is the modularization of the payroll functions, application software systems, documentation, and operations.

NAVSCIPS should provide:

1. uniformity in the interpretation of regulations and the calculation of civilian pay and entitlements, the

application and calculation of authorized withholdings and deductions, and the accounting for all types of leave.

2. Uniformity in all reports generated
3. Standardized input documents
4. Standardized common data elements and definitions with Navy Civilian Personnel Data System (NCPDS)

The system will be fully integrated and process data through specified functional components. The NCPDS interface, the servicing Civilian Payroll office, or the employee will provide all employee data, including adjustments but excluding time and attendance, through on-line data terminals. This provides immediate edit and update capabilities that don't exist in most of today's payroll systems.

Activities will be able to input time and attendance and labor data via on-line data terminals directly into the payroll office or as batch input, using Source Data Automation interface (SDA), through a collection system external to NAVSCIPS.

A variety of standardized output data will be provided by NAVSCIPS. Accounting and payroll interfaces will provide reports to various accounting systems, activities, or agencies responsible for control of the data.

Figure 8 depicts the data flow between the organizations that input and output information.



# NAVSCIPS Data Flow Organization

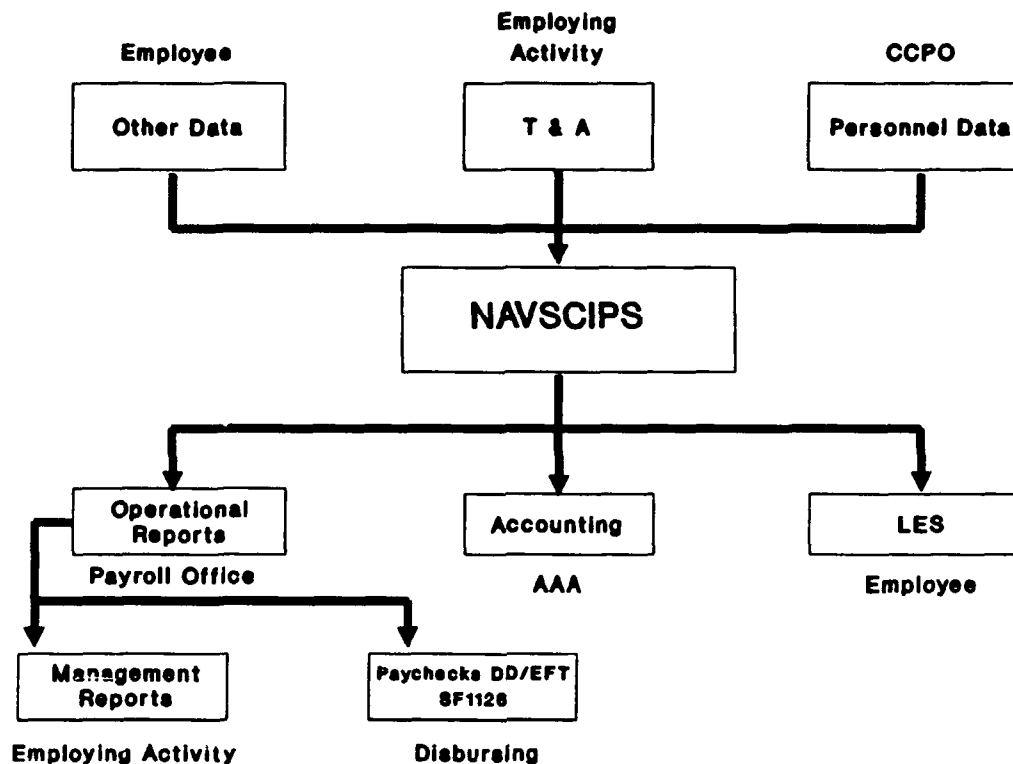


Figure 8

Through this organization the following major functions will be performed:

1. Automatically compute, disburse, and account for all current and retroactive pay, withholdings, and disbursements.
2. Automatically create management reports.
3. Interact with the user through the use of a CRT.
4. Provide user query and inquiry capability and maintain history information for report and audit purposes.
5. Automate user specified processes that are currently manual operations.

NAVSCIPS is separated into the following nine primary components:

(1) Reference Tables - categorized as central or local based. The central tables will be maintained by the Central Design Agency (CDA) for NAVSCIPS and include the following tables:

1. Cost of Living Allowance Table
2. Executive / SES Pay Rates
3. Federal Employee Group Life Insurance Optional Rates Table
4. Federal Employee Health Benefit Rates Table
5. General Table
6. General Schedule Rates Table
7. Geographic Location Codes Table
8. National Holidays Table
9. Overseas Teachers Pay Table

The local tables contain information that can vary between payroll offices. These tables are maintained by each payroll office and include:

1. Activity Record
2. Address Table
3. Distribution Record
4. Employee Organization Table
5. Financial Organization Table
6. Foreign Nationals - Cuba Pay Tables
7. Local Holiday Table

8. Pay Block Table
9. Pay Period Dates Table
10. Payroll Offices Master Record
11. Rotating Tour of Duty Table
12. SDA Interface Table
13. System Status Table
14. Table Master Table
15. Tax Table
16. Wage Board Pay Tables

(2) Employee Data Maintenance - includes on-line processing of the initial establishment of an employee's record, the maintenance of the Master Employee Record (MER) and leave records, and the processing of separations. The system is designed for a minimum of data entry by clerks through the use of standard defaults for noncritical areas, such as taxes and FERS. Work schedules and job order numbers can be modified if different from the standard schedule established at the distribution level.

(3) Time and Attendance - includes entering, updating and correcting employee work schedules, status changes, labor charges and time and attendance data for the current pay period. The system will accommodate daily, weekly, or biweekly entry by the employing activity on-line or in batch mode. On-line input errors are highlighted onscreen and must be corrected before the data will be accepted. Batch mode errors

are reported on the Invalid Transaction Report and can be corrected on-line or through another SDA batch input.

(4) Labor - the payroll office will be capable of providing a serviced activities labor data. Labor data is available to Naval shipyards and public works departments reporting T&A on a daily basis. Estimates of labor through the end of the month for any activity serviced by the payroll office is available. A reconciliation of gross pay data to the job order numbers processed by the system is conducted. This reconciliation interface provides all the data to create the following reports:

1. Civilian Personnel Resource Reporting System (CPRRS)
2. Summary of Accounting Data (NC 2035)
3. Labor Roll / Material Charges and Credits (NC 2051)
4. Report of Fund Authorization Charges (NC 2074)

(5) Leave - is a biweekly batch processing that includes accruals, usage, conversions, balances, and adjustments.

(6) Adjustments - to correct an employee's pay and leave or year-to-date figures due to late receipt of documentation.

(7) Pay Calculations - divided into three distinct processes: gross pay, deductions, and net pay.

(8) Reporting

(9) Mass Updates - of the MER when new tables are created or existing tables updated.

## VI. CONCLUSIONS

The initial goal of this thesis was to develop a comprehensive budget formulation and execution guide to civilian personnel and payroll management that would be incorporated as a training module in the Practical Comptrollership Course (PCC) offered by the Naval Post Graduate School in Monterey, California.

Throughout the course of my study, it became apparent the complexity of the subject, the diversity of payroll systems, and the enormous changes occurring in the field of civilian personnel would place limitations on the scope of this module. I have attempted to provide a broad overview of the subject matter with a more thorough discussion of areas of greatest concern facing the Comptroller today. It would be impossible to incorporate all the relevant information in this guide. Right from the start of my research it became very apparent there is a tremendous wealth of knowledge and expertise in the field. The biggest mistake any organization or individual could make would be to try to "go it alone." I would like to thank all those experts who shared their valuable time and knowledge with me. There is little doubt the two most significant challenges to the financial manager are MTP and

NAVCIPS. As these issues develop there will be a need to continue to revise this guide.

## APPENDIX

The following checklist is provided for assessing and comparing the savings and costs of RIFs, attrition, and furlough:

Step 1. Determine the job series and grades of positions to be eliminated or abolished in the RIF.

Step 2. Determine the historical attrition rates for those positions. The calculation might find the attrition rate for a period of several years and the rate for the prior 12-month period, depending on a managerial judgement of what would most closely resemble projected attrition.

Step 3. Decide on the appropriate attrition rate to use for comparing RIF and attrition savings and costs. This rate may be slightly lower or higher than the mean attrition rate, depending on a managerial judgement of likely attrition.

Step 4. Calculate the gross salary savings expected from the RIF and compare them to salary savings from attrition.

Step 5. Determine the likely sequence of RIF bumps and retreats, reassignments, and separations. (This is normally determined for other management purposes during the planning of a RIF).

Step 6. Given the information from step 5, calculate the actual lump-sum leave and severance pay to be paid to employees separated by the RIF.

Step 7. Determine the cost of any contracts to be used for RIF-related services such as job-search assistance.

Step 8. Subtract the sum of lump-sum leave, severance pay, and contract costs from the figure obtained in step 4 for gross RIF savings. The result is an estimate of the net budgetary effect of achieving the target personnel level with a RIF compared to attrition.

Step 9. Calculate downgrading costs from the sequence of bumps and retreats determined at step 5.

Step 10. Subtract downgrading costs (step 9) from net budgetary savings (step 8). The result is an estimate of the overall net effect of the RIF compared to attrition when the costs that can be estimated prior to the RIF have been considered.

Step 11. If step 10 indicates net savings from the RIF, consider whether the savings is sufficiently high to reasonably cover the costs of unemployment compensation, processing and administration, appeals and grievances, job search assistance, and rehiring.

Step 12. If step 8 indicates a budgetary savings from the RIF, determine the number of furlough days necessary to match this savings.



Step 13. Taking steps 1 through 12 into account, decide whether to reduce staffing levels, or achieve budgetary savings from a RIF, a furlough, or attrition. [Ref. 12]

## LIST OF REFERENCES

1. Practical Comptroller Course, module E, Naval Postgraduate School, Monterey, CA.
2. U.S. Office of Personnel Management, *FERS Federal Employees Retirement System Transfer Handbook*, Washington, D.C.: U.S. Office of Personnel Management, (June 1987).
3. Pledger, James Edgar. "An Organizational Analysis Model for Navy Field-Level Comptrollership," Master's Thesis, Naval Postgraduate School, Monterey, CA, September 1980.
4. CINCPACFLT message, date time group 190240Z Oct 89.
5. Barker, Clark L. "The Department of the Navy's 'Managing to Payroll' Authority," *Armed Forces Comptroller*, (Fall, 1989).
6. Presentation by Ms. Beni Harrel to Practical Comptroller Class, Naval Postgraduate School, Monterey, CA, May 1990.
7. Example from CINCPACFLTINST 12510.2.
8. Syzmanski, Michael L. "Managing to Payroll: An Evaluation of Local Activity Data Management," Master's Thesis, Naval Postgraduate School, Monterey, CA, June 1989.
9. NAS Lemoore message 092209Z Sep 89.
10. Extracted from FAADCPAC San Diego memorandum 7420, Set AA1/P0521, dated 09 Feb 1990.
11. U.S. Office of Personnel Management Memorandum, *Guidance and Information Concerning Furloughs of 30 Days or Less Taken Under Adverse Action Procedures*, March 1986.
12. *Federal Pay and Benefits Reporter*, vol. 1, (October 1985).

# INITIAL DISTRIBUTION LIST

	No. Copies
1. Defense Technical Information Center Cameron Station Alexandria, VA 22304-6145	2
2. Library, Code 0142 Naval Postgraduate School Monterey, CA 93943-5002	2
3. Naval Postgraduate School Attn: David R. Whipple Code 54/Wr Monterey, CA 93943-5004	1
4. Naval Postgraduate School Attn: CDR Glen Eberling Code 54/Er Monterey, CA 93943-5004	1
5. Naval Postgraduate School Attn: James M. Fremgen Code 54/Fm Monterey, CA 93943-5004	1
6. Naval Surface Group Western Pacific Attn: LCDR Ray Lofink, SC, USN FPO San Francisco 96601-6011	1